



City of Albuquerque

Interoffice Memorandum

June 25, 2004

Ref. No.: 04-01-117F

To: Blanca Hise, Director, Parks and Recreation Department

From: Debra Yoshimura, Director, Office of Internal Audit

**Subject: FINAL FOLLOW-UP OF MANAGEMENT AUDIT REPORT NO. 01-117,
GOLF MANAGEMENT DIVISION, PARKS AND RECREATION
DEPARTMENT**

Internal Audit performed a Follow-up Audit of Management Audit No. 01-117, Golf Management Division, Parks and Recreation Department, which was issued February 20, 2002.

The City has four golf courses: Ladera, Arroyo del Oso, Puerto del Sol and Los Altos. The City has concession contracts with three different vendors, who manage the operations of these four golf courses. One of the vendors manages two golf courses, Arroyo del Oso and Puerto del Sol. This concession contract expires in December 2008. Although the original term of this agreement was through December 2004, in August 2001 the previous CAO extended the contract for another four years on a non-competitive basis. The concession contract for the Los Altos golf course expires in December 2004. The concession contract for the Ladera Golf Course expires in December 2005.

These three vendors provide both food and beverage services and golf pro services. Additionally, concessionaire employees collect the greens fees at each golf course. This is the major source of golf course operating revenues. The Fiscal Year (FY) 2003 total Golf Course Fund operating revenues were \$3.9 million. The FY 2003 Golf Course Fund revenues were \$514,000 less than the budgeted revenue of \$4,375,000. The revenue from the three concession contracts was \$348,210 in FY 2003.

The follow-up audit was conducted in accordance with Government Auditing Standards, except Standard 3.49, which requires an external quality review. We also encountered a reportable scope limitation during the audit. The auditor was not allowed to meet individually with the Golf Management Superintendent to discuss audit issues. The Director of the Parks and Recreation Department (PRD) required that meetings be conducted in the presence of another department director and the PRD Fiscal Manager. Government Auditing Standards, Standard 8.10, requires that "Auditors should also report significant constraints imposed on the audit approach by data limitations or scope impairments, including demands of access to certain records or individuals." Standard 7.52d states "Testimonial evidence obtained under conditions where persons may speak freely is more competent than testimonial evidence obtained under compromising conditions (for example, where the persons may be intimidated)."

The purpose of our follow-up was to review the status of the audit recommendations that had been implemented by the PRD. We determined the following:

Recommendation No. 1: The audit recommended that PRD select golf course concessionaires by using a competitive proposal procurement method. The audit also recommended that when there is a non-competitive selection of concessionaires, the reasons for the non-competitive selection should be documented.

The original audit determined that the concession contracts for the Los Altos golf course and the Ladera golf course were awarded on a non-competitive basis to the existing concessionaires. The Golf Management Division (Golf) did not have written justification for the non-competitive selection of the existing concessionaires. According to Golf personnel, the previous Chief Administrative Officer negotiated these contracts with the existing concessionaires. Golf personnel were not involved in the contract negotiations. The City's Purchases Ordinance requires that concession contracts generating more than \$55,000 in annual revenue be awarded on a competitive basis.

ACTIONS TAKEN

According to the Los Altos Golf Course Concession Agreement, "The term of this agreement shall be from January 1, 2000 through December 31, 2004, . . . This Agreement shall terminate absolutely and automatically as of 12:00 o'clock midnight. If both parties which (sic) to extend the Term of this Agreement, they shall begin negotiations on the subject in August 2004, and execute an additional agreement by December 31, 2004, when this Agreement expires." During the follow-up audit, the Director of the Department of Finance and Administrative Services (DFAS) informed the auditors that it was still under discussion whether to negotiate with the existing vendor to extend the contract, or send out a Request for Proposal (RFP).

The Public Purchase Ordinance 5-5-10(E)(3) ROA 1994 states:

"Requests for proposals shall be required for: . . . Concession contracts which are reasonably estimated to generate revenues to the city, over a 12-month period, in excess of \$55,000 if there is competition for use of the city property. In order to determine whether there may be competition, the city shall provide notice of the available concession contract through a newspaper of general circulation and otherwise inform potentially interested parties."

The contract with the current Los Altos concessionaire requires a "Minimum Annual Payment" of \$90,000 for calendar year 2004. The revenues from the Los Altos golf course concession are substantially above the \$55,000 thresh-hold set by the Public Purchases Ordinance.

An expansion of the Los Altos clubhouse is in progress and includes larger food concession facilities. The Ladera clubhouse expansion has been completed and includes larger food concession facilities. In 1999, Golf engaged an outside consultant to conduct a Golf Concession Study. The study included methods to select concessionaires used by several other cities in the region and determined that the City of Albuquerque's share of revenues is somewhat lower than other cities. One possible reason is that the golf pros also operate the food and beverage operations as well as the pro shops. The consultant stated that "A dedicated food and beverage concessionaire may be able to run a more efficient food and beverage operation than a golf pro can. If this is true, the food and beverage firm may have more profit to share with the city." Cities with dedicated food and beverage concessionaires shared in a higher percentage of revenues. During the original audit, Golf personnel stated that they believed that the size of the existing food facilities was too small to create any interest by separate concessionaires. Now that food concession facilities at the Ladera and Los Altos golf courses are larger, it may be appropriate to bid separate food and beverage concession contracts, to attempt to increase the revenue to the City.

At this time, Internal Audit is not able to make a determination regarding whether the audit recommendations for competitive bidding of the golf concession contracts will actually be implemented by PRD. The actions taken by this department during the rest of 2004, regarding the expiration of the Los Altos Golf Concession Contract in December 2004, will determine if the Public Purchases Ordinance is complied with.

FOLLOW-UP RECOMMENDATION

PRD should comply with the requirements of the Public Purchases Ordinance, regarding the award of concession contracts, when the Los Altos Golf Course Concession agreement expires in December 2004.

PRD should put the food concession facilities at the Ladera and Los Altos golf courses out for bid for separate contracts, to attempt to increase the revenue to the City.

EXECUTIVE RESPONSE FROM PRD

- ***"1) The Public Purchasing Ordinance also states in section 5-5-20 (B) (5) (Emphasis added) Except as otherwise defined in the Purchasing Ordinance, agreements for services of a sports professional or team are exempt from the requirements of the Ordinance.***

"2) The City of Albuquerque Purchasing Officer has recently opined that, 'the concession agreements are for the services of a sports professional (Golf Pro) and may be exempt from competitive

solicitation. With regards to the question of 'food concession' at a golf course, a decision can be made to add the concession as a provision to the professional's agreement...'

"3) Whether or not to solicit bids for the Concession Agreement at Los Altos Golf Course has not yet been determined.

- *"1) As the auditor states, the concession study was conducted in 1999. Since that time the concession contracts have been renegotiated with an increase in the percentage payments for food and beverage as well as other areas. In January of 2000 the Los Altos Concession Agreement increased the food and beverage percentage payment from 7% to 8% and increased the minimum annual guarantee from \$19,200 to \$25,000 annually. The minimum annual guarantee is escalated annually to a peak of \$90,000 in 2004. In January of 2001 the Ladera food and beverage payment was also increased from 7% to 8% with escalating annual guarantees, which peak at \$105,000 in 2005.*

"2) The 1999 Concession Study also stated that, 'If a city's share of revenue is high in one category of sales, it may be lower or non-existent in another category of sales.' This section indicates that while we are receiving a lower percentage of food and beverage revenue, we are receiving a higher percentage of revenue in other categories than most other comparable cities. Further, under the section Golf Merchandise and Equipment Repair and Rental Revenue Share it is stated, 'In these categories, the City of Albuquerque is seemingly generating revenue where other cities are not. Most other cities are not taking share of these sales.' This section clearly states that the City of Albuquerque's Golf Division is collecting revenue in areas where most other cities collect nothing at all.

"3) Upon the completion of the new clubhouse at Ladera Golf Course, food and beverage operations were sub-contracted. The sub-contractor was a locally owned and operated food and beverage provider with multiple restaurants located throughout the city and state. After nearly two years, the sub-contractor terminated the agreement with the primary concessionaire. The reason for termination of the contract was the food and beverage provider's inability to meet its own established profit margins."

Recommendation No. 2: The audit made the following recommendations:

- PRD should require the concessionaires to be responsible for the overages and shortages in the cash registers.
- PRD should amend the contracts with the concessionaires to clarify responsibility for overages and shortages in cash register receipts.
- PRD should require the concessionaires to have written revenue and reconciliation procedures. PRD should review the procedures to determine if they include adequate controls over revenue.

The original audit noted that concessionaire employees entered green fees and other pro shop revenue into the City owned point of sale cash registers. Cash shortages in the cash register would be impossible to classify as shortages in green fees or pro shop sales. However, the shortages were recorded as a reduction of the amount of money deposited to the City bank account and were treated as shortages in green fee revenue. As a result, the City had assumed all of the risk associated with cash discrepancies at the golf courses although City employees were not handling the cash. The three concession contracts with the vendors state, "The Concessionaire shall maintain a revenue control procedure." The audit determined that the concessionaires did not have written revenue control procedures.

PRD responded to the recommendations as follows, "We have taken this recommendation very seriously and have consulted with the City's Treasury Department. They agree that any deposit discrepancies are reconciled in a timely manner and that the city has not lost any revenue as a result of the concessionaires' cash handling procedures. We will comply, and ask the concessionaires to provide us with a written procedure of their cash handling process."

ACTIONS TAKEN

The audit recommendations have been partially implemented. In January 2002, PRD implemented a "Register & Cash Handling Procedure" that the golf course concessionaires were required to comply with. All of the concessionaires signed the procedure, to acknowledge that they were informed of the necessity of complying with this procedure.

This procedure had a section that related to the depositing of City monies from greens fees. This section stated, "The total deposit must match the total on your daily Green Fee report including the tax. NO EXCEPTION TO THIS RULE." We obtained a report of Golf Management Division greens fee cash overages and shortages during the period from July 2002 through June 2003. The report identified 10 shortages of more than \$25 during the one-year period in deposits of City greens fees revenues by the concessionaires. Four of the 10 shortages were \$100 or more, with the largest

shortage being \$435. According to PRD fiscal personnel, this shortage was caused by a clerical error on the part of the concessionaire. The concessionaires later deposited funds to cover the previous shortages. These situations violate the Golf concessionaire cash handling procedures, which require that the total daily deposit of green fees by the concessionaires must match the total amount of green fees recorded on the City's point of sale system.

In the response to the original audit report, PRD stated that it would "... ask the concessionaires to provide us with a written procedure of their cash handling process." However, the concessionaires have not developed written cash handling procedures. These procedures are necessary to ensure that all sales are recorded in the City's point-of-sale system, and that all transactions, which affect revenues due to the City are properly handled by concessionaire employees. The lack of written concessionaire procedures may have contributed to problems, including the incorrect depositing of City cash receipts.

FOLLOW-UP RECOMMENDATION

The Parks and Recreation Department, Golf Management Division should require the concessionaires to prepare and implement written cash handling procedures. The procedures should provide steps for deposit preparation that will ensure that the total daily deposit of City monies from greens fees match the total green fees recorded on the City's point of sale system.

EXECUTIVE RESPONSE FROM PRD

- ***"1) Written cash handling procedures were developed in January of 2002 in a collaborative effort between the concessionaire and Golf Management as is stated by the auditor in the first paragraph of recommendation #2, Actions Taken.***

"2) We believe there are adequate written procedures and a system of checks and balances in place to ensure that all revenues due to the city are accurately recorded and collected. The city's Treasury Department has confirmed that the city has not lost any revenue and that any deposit discrepancies are reconciled in a timely fashion. Further, the auditor reports ten (10) shortages over a one (1) year period. There are four (4) golf courses open three hundred sixty four (364) days per year with a deposit made for each business day. That equates to one thousand four hundred fifty six (1,456) deposits made by the concessionaires each year. Ten (10) shortages out of one thousand four hundred fifty six (1,456) deposits calculates to .6% error rate. We believe this is an acceptable level of error and will reiterate that the

city's Treasury Department reports that no revenue has been lost."

Auditor's Comment

The January 2002 written cash handling procedures state, "The total deposit must match the total on your daily Green Fee report including the tax. NO EXCEPTION TO THIS RULE." It appears that there are insufficient internal controls to prevent errors in deposits. Detailed written procedures should be developed to strengthen internal controls over the concessionaire's handling of City monies. This will provide greater assurance that all City monies have been recorded in the cash register and deposited in the City's bank account.

Recommendation No. 3: The audit recommended that the PRD require concessionaires to comply with the requirements of their contracts. The original audit determined that there was non-compliance by the concessionaires with the following areas of the three contracts:

- Inventory requirements for golf equipment and apparel
- Ladera Golf Course concessionaire operational plan and schedule for capital improvement investments
- Inventory of Concessionaire property
- Use of Private Golf Carts

The Parks and Recreation Department responded as follows, "The Golf Management Division, in consultation with the Legal Department, has constructed a letter to inform the concessionaires of the non-compliance issues. They have been given a January 31, 2002 deadline for written responses regarding these issues. Once the responses have been received if any contract amendments are necessary they will be completed within 30 days of response reception."

ACTIONS TAKEN

The audit recommendations have been partially implemented. In January 2002, Golf sent letters to each concessionaire, which informed them of the contractual non-compliance issues, and required a

response from each concessionaire. Because of this action, several contract amendments were made to the concession agreements to address problems that were identified in the original audit finding.

However, there were additional issues that were not addressed.

Current Status of Concessionaire's Compliance with Contractual Requirements

The auditor judgmentally selected items in the concessionaire contracts, and reviewed the current status of the concessionaire's compliance with these contractual requirements. We noted the following problems:

A. Concession Agreement Insurance Requirements

We requested that Golf personnel provide evidence that the concessionaires each had required insurance coverage.

The Los Altos agreement requires that a \$25,000 fidelity bond be provided by the concessionaire to cover any loss of City revenues caused by the employees of the concessionaire. The most recent certificate of insurance that the concessionaire had provided to the City, for the period from November 2003 through November 2004, did not indicate that this required coverage was in effect. Additionally, the certificate of insurance did not indicate that the concessionaire had the automobile insurance required by the concession agreement.

The City is paying for one-half of the cost of the liquor license liability insurance policy for the Los Altos concessionaire. The concessionaire agreement specifies that the City will pay for one-half of the cost of the concessionaire's general liability insurance policy. However, the agreement does not state that the City will pay for one-half the cost of the concessionaire's liquor license liability insurance policy.

The Arroyo del Oso/Puerto del Sol agreement requires that a \$25,000 fidelity bond be provided by the concessionaire to cover any loss of City revenues caused by employees of the concessionaire. The most recent certificate of insurance that the concessionaire provided to the City, for the period from July 2003 through July 2004, does not indicate that this required coverage is in effect.

The Ladera agreement requires that the concessionaire have automobile insurance. The most recent certificate of insurance that the concessionaire provided to the City, (for the period from May 2003 through May 2004, does not indicate that this required coverage is in effect.

Golf did not have evidence that each of the concessionaires had the required insurance coverage. This could have exposed the City to unnecessary risk. After our request, Golf Management obtained documentation from the concessionaires' insurance companies

indicating that the required insurance coverage is currently in effect.

B. Contractual Requirements for Financial Reports and Audits

PRD fiscal personnel informed us that they stopped enforcing the audit requirement that is in all three of the concession agreements. Each of these contracts has a section which states, “. . . as of each December 31 thereafter during each year of Term of this Agreement, the concessionaire shall prepare an ‘Annual Audit’ and will deliver two (2) copies of the Annual Audit to the City by the immediately following March 31. The form and method of accounting . . . shall be certified by a Certified Public Accountant (‘CPA’). . . . Within sixty (60) days of the City’s sending written notice to the Concessionaire of the amount paid by the City to the CPA, the Concessionaire will reimburse the City in full.” PRD fiscal personnel informed us that the department no longer requires the concessionaires to have an “Annual Audit” performed because the audits by the outside CPAs never identified any problems.

The purpose of an annual audit is to provide the City assurance there are no deficiencies with respect to the recording and payment of revenues by the concessionaires during the previous year. Without this assurance, the City’s exposure to risk is greatly increased. The concession contracts have not been amended to eliminate the audit requirement.

The "Liquor License Lease Agreements," dated November 29, 1999, between the City and the concessionaires who sell liquor at the Los Altos Golf course and the Arroyo del Oso Golf course state, "Annually, within thirty (30) days after the end of each term of this Lease, Lessee shall give the Director of the Parks and Recreation Department of the City a statement of its Gross Revenues and Liquor Rent due and paid for the Previous term. Such statements shall be prepared by Lessee's certified public accountants in accordance with generally accepted accounting principles." PRD personnel stated that the department “. . . has opted to waive this requirement of the Liquor License Lease Agreements.” However, the contracts have not been amended to eliminate the requirement.

If the department decides that it will not enforce a contractual requirement, it should request that an amendment be prepared and approved by the appropriate City officials. The Chief Administrative Officer approved the contracts with the Concessionaires after review by the City Legal Department. PRD does not have the authority to unilaterally modify or ignore provisions of the City’s contracts.

C. Sub-Lease of Ladera Golf Course Food and Liquor Sales Operation

In November 2001, the City approved a “Sub-Lease Agreement” whereby the Ladera Golf Course concessionaire subleased its food and liquor sales operations to another

entity. The sub-lease agreement states, "... the City of Albuquerque shall be named as an additional insured and shall be entitled to receive copies of all notices under the policy." The auditor asked for copies of insurance certificates of the sub-lessee to determine if the City has been named as an additional insured on the insurance policies. The most recent certificate of insurance that Golf personnel were able to provide was March 2002 through March 2003. Golf does not have the contractually mandated documentation to know if the sub-lessee currently has this required insurance coverage.

FOLLOW-UP RECOMMENDATION

PRD should ensure that the concessionaires provide the annual documentation that shows that all contractually required insurance and bonds are in effect.

PRD should enforce all contractual requirements. If the department decides that it is not going to enforce a contractual requirement, it should request that an amendment be prepared and approved by the appropriate City officials.

PRD should ensure that the provisions in the Ladera Golf Course food and liquor sales sub-lease, which protect the City's interests, are complied with.

EXECUTIVE RESPONSE FROM PRD

"All contractually required coverages were in place. However, to ensure that the documents are in the file, we will develop a checklist of required insurances and bonds. The checklist will be reviewed and signed by the Retail Program Specialist and the Superintendent of Golf Management at the time of renewal."

"PRD will have the concession contracts amended by the appropriate city officials to reflect the relevant changes."

"The food and liquor sub-lease at Ladera Golf Course was terminated on September 1, 2003."

Recommendation No. 4: The audit determined that during a seven-month period, the four City golf courses recorded 3,371 complimentary golf rounds, valued at more than \$54,000. This included 1,383 complimentary rounds of golf for City and concessionaire employees. The audit made the following recommendations:

- PRD should develop procedures to ensure that the criteria for allowing complimentary golf rounds by the concessionaire contracts and PRD policy are followed.

- PRD should improve its supervisory review of the usage of complimentary golf rounds, and require the concessionaires to improve the accuracy of the tracking and recording of the usage of complimentary golf rounds.
- PRD should determine if the Operational Manual for the City of Albuquerque Municipal Golf Courses should be updated.

PRD responded as follows:

“We agree with this recommendation. From this date forward, the authorization of any complimentary golf rounds, other than high school teams, will be made only by the Director of Parks and Recreation and the CAO.

“The Division Manager for Golf has contacted the golf course concessionaires and urged them to train their employees on how to properly enter complimentary golf rounds into the POS system.

“The Operational Manual for the COA Golf Management Division has been updated and recommended for approval by the Director of Parks and Recreation. It is currently pending approval of the city Legal Department.”

ACTIONS TAKEN

The audit recommendations have been partially implemented. Golf prepared a revised golf course “Operational Manual”, effective July 1, 2001. Regarding complimentary golf rounds, this manual states:

“The Department Director and/or the CAO may approve complimentary play on City of Albuquerque Golf Courses for the purpose of providing oversight by department managers of course operations, facilities maintenance, safety and security. Complimentary play is also designed to assist in the transfer or exchange of information, programs and technologies that impact golf programs. It also exists to educate and inform those who are involved in the golf operations.

“A list of approved complimentary play are:

- “Participants in an event sponsored by the City for promotion of conventions, tourism, economic or industrial development.
- “Members of the PGA and GCSAA.

- “CAO, Deputy CAO, Department Director and elected officials of the City of Albuquerque.
- “Golf Management and Pro Shop/concessions employees on their ‘home’ course.
- “Municipal Golf Advisory Board Members – one round on each municipal golf course upon attendance of each Board meeting.”

Golf’s records show that during the 18-month period from July 2002 through December 2003, the following numbers of complimentary golf rounds were recorded (not including student complimentary rounds):

Employee	2,434
Mayor/Council/Waiver*	780
PGA/GCSA	<u>128</u>
 TOTAL	 <u>3,342</u>

*Upon the approval of the City’s Chief Administrative Officer, green fees are occasionally waived for charity golf tournaments.

The Friday through Sunday green fee for 18 holes was \$18.25, effective March 1, 2002. The weekday rate was slightly lower. The value of the complimentary golf rounds played during the 18-month period (not including student rounds) was more than \$50,000.

During the original audit period, Golf personnel stated that they believed that City and concessionaire employee free golf rounds averaged approximately 100 rounds per month. During the subsequent 18-month period, City and concessionaire employee free golf rounds increased, averaging 135 rounds per month. Golf has 38 permanent employees and up to 14 temporary employees.

According to Golf personnel, when concessionaire employees record a round of golf as being complimentary, they do not record the name or position of the individual who was given a complimentary round. As a result, Internal Audit was not able to determine if complimentary golf rounds were given in accordance with the written policy. As noted above, complimentary rounds for employees are only permitted on their “home” course. However, the records indicate that employees played 1,452 complimentary golf rounds at the Arroyo del Oso golf course, but only 46 complimentary golf rounds at the Ladera golf course. This indicates that the restriction of employee complimentary golf rounds only being allowed on their “home” course may not be strictly enforced.

The rules regarding complimentary golf rounds permits high school golf teams to receive free rounds. Golf records indicate that 1,092 complimentary golf rounds were given to school students during the 18-month period. According to Golf personnel, the actual number of student complimentary golf rounds is approximately 10 times larger than was recorded on the City's point of sale system.

The bond covenants for golf course bonds state: "No free services, facilities nor commodities are to be furnished by the Golf Course." The practice of the Golf Management Division giving complimentary golf rounds does not appear to be consistent with this bond covenant. The City Administration's practice of periodically waiving greens may also be a violation of the bond covenants.

FOLLOW-UP RECOMMENDATION

PRD should request a legal opinion to determine if the practice of giving complimentary golf rounds is in violation of the bond covenants. If the practice is determined to be legal, PRD should obtain City Council approval for the practice.

PRD should implement tighter controls to ensure that complimentary golf rounds are only given in accordance with the Division's written policies. Concessionaire employees should be required to record the name and position of each individual who is given a complimentary golf round. Golf personnel should periodically review this information to determine if the concessionaires are complying with written policies regarding complimentary golf rounds.

EXECUTIVE RESPONSE FROM PRD

- ***"1) The city's Legal Department has opined that the practice of giving complimentary golf rounds is not in violation of the bond covenants. The policy of issuing comp rounds has been in place and remained relatively unchanged since July 1, 1987. Additionally, all operating policies were disclosed to the rating agencies prior to the sale of the bonds in February of 2001.***

"2) Employees, both concessionaire and city, play comp rounds during off peak times and often do not play eighteen (18) holes. This would therefore, reduce the calculation of the value of the complimentary rounds, as stated by the auditor, as afternoon and nine hole rates are a lower price than regular rates. Employees and other individuals or groups playing complimentary rounds also make purchases in the areas of merchandise, cart rentals, range balls, food and beverage,

which contribute to the revenues collected by the city. These are revenues that would not be generated if the complimentary rounds were not played. Even if we were to assume the stated \$50,000 complimentary round value is accurate this still accounts for less than one percent (1%) of the green fee revenue over the eighteen-month period. Additionally, if no one is attempting to play the golf course during the time that an employee round is played there is truly no loss of revenue.

- *“We will require the concessionaire’s employees to record the name and position of each individual who is given a complimentary golf round. Golf Management personnel will periodically review this information to determine if written policies are being followed.”*

Recommendation No. 5: The audit made the following recommendations:

- PRD should ensure that there is adequate involvement of management personnel at the operating level, to ensure that performance measures are realistic and appropriate.
- The CAO should consider implementing changes to the City’s Performance Plan process to ensure that there is a mechanism for programs to report their progress toward accomplishing performance measures, including a process to document the impact on performance measures of changing external factors.

The original audit determined that PRD did not have adequate involvement of Golf personnel at the operating level, in the development of some performance measures. For example, some output measures were rolled forward from the prior year even though they did not apply to the Division. Additionally, some performance measures were not specific or realistic.

The original audit also determined that the City could improve the way that it monitors program accomplishments and progress toward the City’s Performance Plan. Once the City adopted the Final Approved Budget and Performance Plan, there was not a process for City departments to report their progress towards or obstacles in meeting the established measures during the fiscal year. The only opportunity for departments to report on their accomplishments and progress toward performance measures was in the next year’s Performance Plan.

ACTIONS TAKEN

The audit recommendations have been partially implemented. The City has implemented an on-line system on which City departments can report their accomplishments relating to performance measures. Golf personnel are more involved in the establishment of annual performance measures,

to ensure that performance measures are realistic. However, there is a current problem with respect to the accurate reporting of accomplishments.

Golf reported "During FY/02, an on-site golfer satisfaction survey was conducted." The Division reported that the results of the survey included the following:

"The on-site satisfaction survey shows: 87% of the golfers surveyed rated the overall quality of the golfing experience as good/excellent. Additionally, 80% of the golfers rated the overall golf course maintenance as good/excellent."

We reviewed the survey information/documentation that was the basis for these statements regarding performance measure accomplishments. The 2002 survey was performed by Golf personnel, who selected golfers to complete a written questionnaire. The overall quality of their golfing experience at the City golf course was rated as excellent or good by 137 of the golfers. This represents 83% of the golfers who responded to the question, not the 87% figure reported by the department.

The overall maintenance of the City golf course was rated as excellent or good by 125 of the golfers. This represents 74% of the golfers who responded to the question, not the 80% figure reported by the department.

Golf conducted another on-site golfer satisfaction survey in 2003. The Division reported that the results of the survey were as follows:

"The on-site satisfaction survey shows: 89% of the golfers surveyed rated the overall quality of the golfing experience as good/excellent (58% good, 31% excellent). Additionally, 73% of the golfers rated the overall golf course maintenance as good/excellent with only 2% poor rating."

We reviewed the survey information/documentation that was the basis for these statements regarding performance measure accomplishments. The overall quality of their golfing experience at the City golf course was rated as excellent or good by 107 of the golfers. This represents 86% of the golfers surveyed, not the 89% figure reported by the department. The overall maintenance of the City golf course was rated as excellent or good by 100 of the golfers. This represents 80% of the golfers surveyed, not the 73% figure reported by the department.

FOLLOW-UP RECOMMENDATION

PRD should ensure that it accurately reports its accomplishments relating to performance measures.

EXECUTIVE RESPONSE FROM PRD

“We will have the Superintendent of Golf Management and the Financial Manager of PRD review the accuracy of reported accomplishments regarding the performance measures.”

Recommendation No. 6: The audit recommended that PRD update the Five-Year Master Plan annually and analyze the progress made toward the goals established.

With the assistance of an outside consultant, Golf prepared a Five-Year Master Plan, covering the period of FY 2000 through FY 2004. This plan established specific “actions” for PRD to accomplish each year. The original audit determined that PRD had not updated the plan, nor had it performed a periodic evaluation to determine if Golf was accomplishing any of the goals in the plan.

ACTIONS TAKEN

The audit recommendations have been partially implemented. Golf is updating its Five-Year Master Plan annually and analyzing the progress made toward the goals established. The auditor judgmentally selected two budget-related items from the latest Golf Five-Year Master Plan, and reviewed the current status of these items. The two items selected for audit review were:

- “A pilot program to expand alcohol sales onto the golf course was implemented.”
- “It was necessary to reduce budget appropriations in order to meet the required Bond Debt Service ratio.”

A. Alcohol Sales

City Council Enactment 40-2003 (adopted April 2003) outlined “policies to govern the dispensing of alcoholic beverages at municipal golf course facilities.” This enactment stated, “The City shall require a liquor license liability policy with liability limits in an amount not less than one million dollars, and the City shall be named an additional insured on the policy.” This enactment superseded a 2001 enactment that contained the same requirement.

We reviewed the most recent certificate of insurance that the Arroyo del Oso concessionaire provided to the City, for the period from July 2003 through July 2004. The certificate of insurance does not show any liquor license liability coverage. We also reviewed the most recent certificate of insurance that the Ladera concessionaire provided to the City, for the period from May 2003 through May 2004. The certificate of insurance does not show any liquor license liability coverage. Golf Management did not have the contractually mandated documentation to know if the concessionaire has this required insurance coverage. After our requests, Golf Management obtained documentation from the concessionaires’ insurance companies that

indicated the required insurance coverage was in effect.

B. Annual Audit

City Council Enactment 40-2003, adopted April 2003, outlines “policies to govern the dispensing of alcoholic beverages at municipal golf course facilities.” The enactment states, “Each agreement to operate and/or lease a governmental liquor license for a municipal golf course facility shall be subject to an annual audit.” PRD personnel stated that, in their opinion, the City’s “Comprehensive Annual Financial Report is the audit required by this resolution.” However, the purpose of the external auditor’s examination of the City’s CAFR is to express an opinion on the City’s financial statement, not to audit the liquor sales operations at the municipal golf course facilities. It would be reasonable for PRD to discuss with Council Services the intent of this requirement in the enactment, to ensure that the requirement is being complied with.

FOLLOW-UP RECOMMENDATION

The Parks and Recreation Department should comply with City Council Enactment 40-2003 regarding alcohol sales at the golf courses by ensuring that:

- The concessionaires provide the required liquor license liability policy and that the City is named an additional insured on the policy.
- Each agreement to operate and/or lease a governmental liquor license for a municipal golf course is subject to an annual audit. PRD should discuss with Council Services the intent of the requirement in the enactment regarding an annual audit of each agreement to operate and/or lease a governmental liquor license for a municipal golf course facility. PRD should comply with the City Council intent regarding this item.

EXECUTIVE RESPONSE FROM PRD

***“All contractually required coverages were in place. However, to ensure that the documents are in the file, we will develop a checklist of required insurances and bonds. The checklist will be reviewed and signed by the Retail Program Specialist and the Superintendent of Golf Management at the time of renewal.*”**

“We will consult the city’s Legal Department to discuss the intent of the requirement in the enactment regarding an annual audit of each agreement to operate and/or lease a governmental liquor license for a municipal golf course facility. We will comply with the Legal Department’s opinion of the intent regarding this issue.”

DDY/njt

xc: Mayor Chavez
Internal Audit Committee
City Councilors
James B. Lewis, CAO
Diana Dorn-Jones, COO
Gail Reese, CFO
Laura Mason, Director, Council Services Department
John King, Superintendent of Golf Management
Sandy Doyle, Director, Department of Finance and Administrative Services